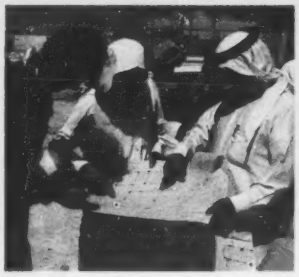


TP&C

WORLDWIDE TOTAL REMUNERATION

Contents

Human Resource Management:
The Central Issue of the 1980s/2
Cash Remuneration/6
Benefit Practices/14
Expatriate and TCN Remuneration/21
Total Remuneration Issues/25

About This Report

Effective human resource strategy encompasses long-range planning for the optimal use of people to achieve corporate profitability. In a difficult and ever-changing international business environment, remuneration systems play an increasingly important role in support of human resource management.

This, the sixth edition of the TPF&C Worldwide Total Remuneration report, presents information about the widely different practices and trends in 19 countries.

Human Resource Management: The Central Issue of the 1980s

In each decade an issue emerges as the primary challenge of its time, compelling the attention of corporate executives and the commitment of corporate resources to a significantly greater degree than other issues. The critical challenge of the 1960s was the development and management of information systems—learning how to use the data processing capabilities made possible by a leap in computer technology. During the 1970s, the availability, allocation and control of natural resources determined the health and, in some cases, the survival of a corporation.

Less dramatic, perhaps, but no less critical is the central issue of the 1980s—the management of human resources. We must continue to develop technological and natural resources. Nonetheless, people constitute the primary issue of this decade.

Talented executives, managers and skilled technicians are in short supply in many countries throughout the world, despite generally high unemployment. The costs of finding, training and retaining people are simply too great to permit unplanned or haphazard use of personnel. Moreover, the need for increased productivity to offset rising energy and materials costs and the urgency of establishing appropriate management development and succession plans cannot be ignored.

Corporate strategy must include a well-articulated, comprehensive human resource program if a company is to realize its full profit potential. The program should also reflect the increasingly international nature of many businesses.

Worldwide Competition: Before the 1970s, the term "foreign direct investment" generally connoted the investment initiatives of only a few countries. Today, many countries seek foreign direct investment. One consequence of this is increased competition, particularly for people, among multinational corporations (MNCs).

To succeed, corporations need human resource programs supported by career development and remuneration systems—cash and benefits—that are competitive, equitable and conducive to achieving the organization's overall goals. Maintaining these systems in the face of rising costs, increasing employee expectations and inflation-eroded profit margins is a difficult task for any company.

Corollary Issues: Although cultures differ widely in the industrialized world, Western corporations—European and American—traditionally have viewed organizational strategy, structure and systems as the foundation for growth. Not infrequently, the balance among these elements reflects the personal style and philosophy of a chief executive and may shift with a change in top management.

Eastern corporate cultures are radically different. In Japan, for example, a major corporation assumes a far greater role in the lives of its employees than is common in the West. Sharing the expectation that most employees will remain with the company for life, both management and staff focus on the development of team skills and cooperative group relationships. By custom and philosophy, efforts are directed toward the achievement of corporate—rather than individual—goals.

In such rapidly developing countries as Saudi Arabia, there is a strong desire to train their own citizens in management practices. Foreign companies operating in these countries will experience great pressures to develop local national management at ever-higher levels. Multinational organizations should take into account in their human resource planning not only the political and corporate environments in which they will place their staff, but also the different challenges and career limitations expatriates face as a result of the emphasis on local promotions.

Cash remuneration and benefits are greatly influenced and frequently mandated by the political entities in which multinationals operate. For example, termination pay in Italy and minimum salaries in France are subject to government regulation. Yet a balance must be maintained among disparate groups of employees within a country, and among employees who are transferred from one country to another.

Remuneration elements should be carefully planned to take advantage of differing national tax structures and the remuneration expectations they foster. Canada has modified its tax structure, reducing the attractiveness of executive perquisites, while France has recently placed a surtax on company-provided cars and nonessential executive travel. Saudi Arabia imposes no personal income tax. On the other hand, the maximum marginal tax rate in Australia applies at a comparatively low pay level, causing even lower-level employees there to press for perquisites and other forms of tax-favored remuneration.

Currency fluctuations add to the complexity of remuneration planning. For example, the Italian lira is now worth half its 1971 value against the United States dollar, while the Swiss franc has appreciated 130%.

Management incentive compensation plans, once almost wholly the tools of U.S. companies, are becoming increasingly popular in the United Kingdom. By the mid-1980s, it seems likely that at least half of the largest U.K. employers will offer incentives as part of an executive's remuneration package.

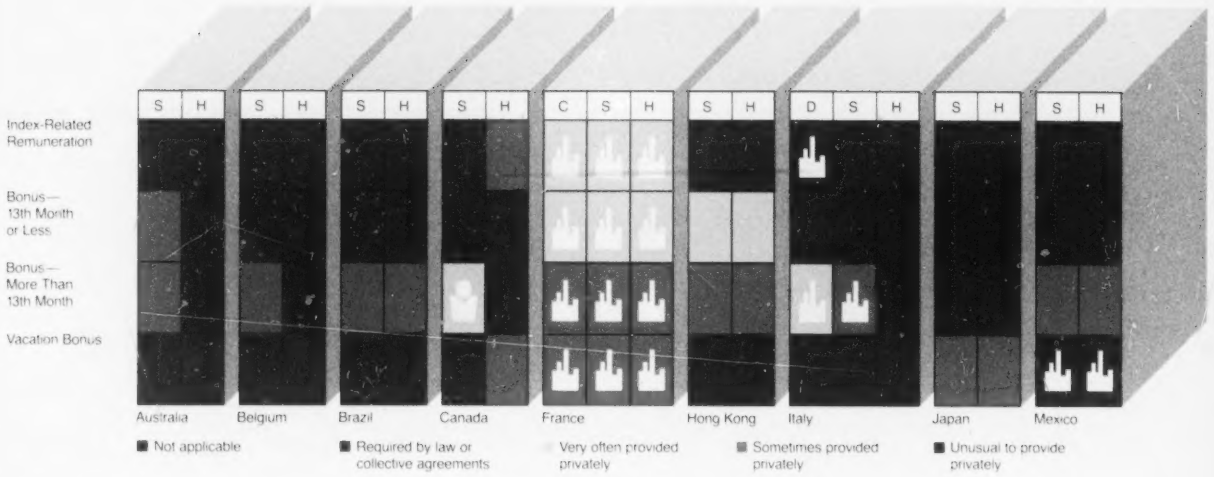
Government Intervention: Throughout the industrialized world there is a trend toward government involvement in and regulation of cash remuneration and benefits. Government increasingly acts as the final arbiter in collective dismissals and involuntary individual terminations. Contingency plans must be developed to deal with the appropriate government and union agencies in the event of a plant shutdown

or massive layoffs. Sensitivity to the operating environment is a key factor in negotiating the separation benefits of employees; it can make the difference between modest and massive costs.

Internationally, most social security systems reached their peak in the 1970s. Since then, they have been weakened by inflation, slow economic growth and an increase in the number of retirees relative to the working population. Some governments are retreating from their earlier posture of comprehensive social responsibility for the health and welfare of workers and retirees. As government participation in these areas diminishes, more emphasis will be placed on personal savings and greater pressures will develop to increase corporate benefits, particularly to provide some inflation-protected retirement benefits.

The Importance of Planning: The cash remuneration and benefit practices of individual countries can have extraordinary impact on corporate financial planning. In some countries, a bonus and other benefits and perquisites become acquired rights. Once given, they can be rescinded only by terminating the individual and incurring the costs involved in such a termination.

In an era of international mergers and acquisitions, a company must be thoroughly familiar with the prevailing pay practices in each country in which it operates or plans to operate. With this knowledge, remuneration packages can be designed to meet the requirements and conditions of the marketplace. The major elements in these packages are cash, special plans for executives and expatriates, retirement plans, medical coverage, other employee benefit programs and termination benefits. An understanding of these elements and their relationship to each other is essential to doing business internationally.



CASH REMUNERATION

No matter how much remuneration practices differ from country to country, salary remains the fundamental component of pay systems throughout the industrialized world. It serves as the foundation for determining the amount of such other remuneration elements as pensions, life insurance, profit sharing, bonuses and termination payments.

For multinational corporations, remuneration planning on a worldwide scale involves the consideration of myriad external legislative and cultural factors. And these factors must be analyzed with great care, for their impact on long-term financial results and on human resource planning cannot be ignored.

Remuneration Practices: Indexing pay to the cost of living (COL) to counterbalance inflation has become more widespread in the last few years *(Table 1)*. Today, pay indexation linked to the COL is required in Belgium, Brazil, Italy, the Netherlands, Spain and Sweden. (In Belgium, there is growing agreement that modification of pay indexation is needed.)

Collective bargaining agreements in all major unionized companies in France have established an indexed minimum remuneration floor for each position in each industry, and the government has extended these minimum rates to small companies as well.

Index-related remuneration remains rare in Hong Kong, Japan, Mexico, Singapore, Switzerland, the United Kingdom and Venezuela, and is virtually nonexistent in Saudi Arabia (although there is strong government pressure to improve wages for technically trained workers) and West Germany. Collective bargaining agreements in Canada and the United States have successfully linked union wages to inflation in some major industries. Recently, however, job security has replaced pay

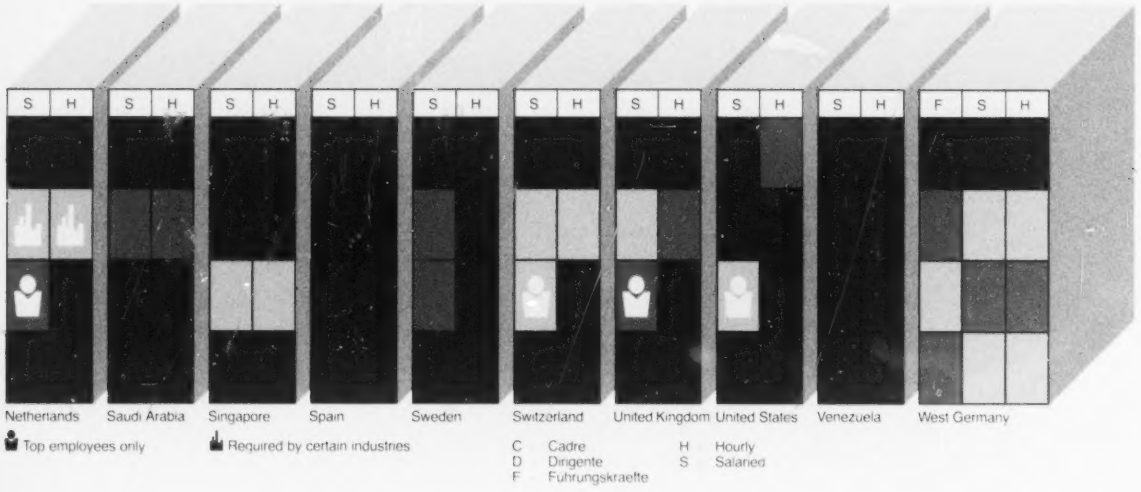


TABLE 1

Source TPF&C

Cash Remuneration Practices

increases as the major union issue in the U.S., as seen in the automobile and other large industries.

Bonuses can add as much as 50% to the annual wages of hourly and lower-level salaried employees in some countries. The average worker in Japan receives two bonuses a year that, together, amount to as much as one-half of annual wages. In Spain and Venezuela, annual bonuses totaling more than one month's pay are invariably given, and they very often are granted in Singapore.

Annual 13th-month-or-less bonuses are required in Belgium, Brazil, Italy, Mexico and Venezuela. Australia requires that salaried and hourly workers receive a vacation bonus, but this practice does not exist in Hong Kong, Saudi Arabia or Singapore.

Although most people think of "pay" as cash, the legal definition frequently encompasses "cash and kind." This can be interpreted as pay plus a company-furnished car, a special performance bonus, a country club membership—anything of value. Moreover, in some countries—Brazil and Venezuela, for example—remuneration other than cash may become an acquired legal right.

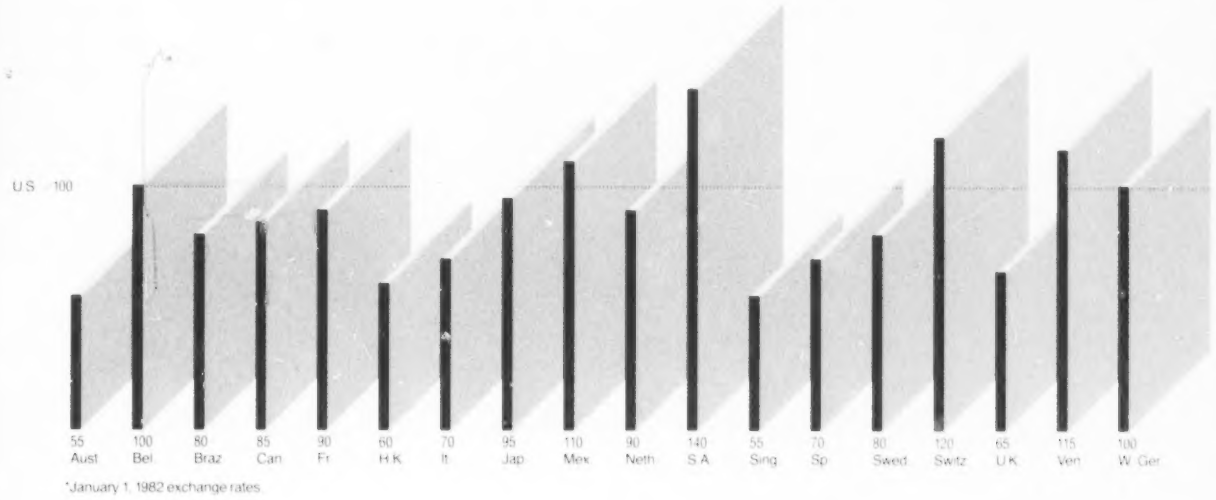
Executive Remuneration: Senior corporate executives are among the highest-paid people in the world, frequently earning more than heads of state. In the U.S., corporations have devised tax-effective executive remuneration packages that combine cash with bonuses, deferred compensation, various forms of stock options, perquisites and benefits to encourage and reward superior performance. The remuneration of executives in other countries also is designed to be tax-effective and, to that end, it often includes many perquisites.

Table 2 compares the base salary levels of chief executive officers in 18 countries with that of a comparable U.S. executive (the head of a profit center). The comparisons are based on the practices of a company with $100 million in annual sales. As in our last report, the U.S. index is set at 100 and the indices of other countries are calculated as a percentage of the U.S. salary.

Of the 13 countries (Belgium, Brazil, Canada, France, Italy, Mexico, the Netherlands, Spain, Sweden, the U.K., the U.S., Venezuela and West Germany) in our 1979 study, only executives in Canada, Mexico and Venezuela appear to have gained against the U.S. executive. Decreases in relative CEO earnings have occurred in Belgium (to 100 from 140), Brazil (to 80 from 120), France (to 90 from 120), Italy (to 70 from 90), the Netherlands (to 90 from 140), Spain (to 70 from 100), Sweden (to 80 from 110), the U.K. (to 65 from 70) and West Germany (to 100 from 150).

These changes undoubtedly reflect the strengthening of the U.S. dollar more than any real gains in executive pay. In most countries, top executives' salaries have barely kept pace with increases in the cost of living. Indeed, in a highly inflationary economy such as Brazil's, where executive pay is reviewed only every six months, actual pay during the year can be considerably less than the imputed annual rate in U.S. dollars at the beginning of the year.

The weakening or strengthening of the deutsche mark against the peso or the riyal against the dollar means little to the manager who remains in one country for life. But to the executive who moves from one part of the world to another, and to the MNC human resource manager who must plan these relocations and account for the costs in the currency of the parent corporation, relative currency values are of great importance.



*January 1, 1982 exchange rates

TABLE 2

CEO Base Salary Indices (as a % of U.S. salary* in an operation with $100 million in annual sales)

Source: TPF&C

Because the frequent currency fluctuations and inflation of recent years will probably continue, the relative value of executive remuneration in different countries will continue to vary. For example, the Mexican peso was devalued nearly 50% at the beginning of 1982, changing its international relationships radically overnight. An MNC must monitor these changes closely to maintain the appropriate balance in its remuneration and career path programs.

Tax Practices in Industrialized Countries: The effectiveness of salary increases and compensation levels depends largely on tax rates. A salary increase of $20,000 may be very rewarding in Saudi Arabia, where there is no personal income tax and no restriction on transferring funds out of the country. The same increase may be much less attractive in Brazil, where inflation and money transfer restrictions combine to offset its value.

Table 3 illustrates prevailing tax rates in 1982 and the income level, in U.S. dollars, at which the maximum marginal rate is reached. Saudi Arabia, at one end of the tax scale, and Japan, with a possible 75% marginal rate at the other, illustrate the wide range of tax rates.

The key factor, however, is the income level at which maximum rates apply. For example, a Japanese executive must earn almost $400,000 in taxable income to reach the maximum marginal tax rate, while a Belgian executive with a taxable income of a little over $100,000 is subject to a maximum 72% rate—the same rate that applies to a Dutch executive with a taxable income of $76,100.

The tax rates shown in the table tell less than the full story. Allowable deductions, local taxes and marital status all affect the amount of taxable income.

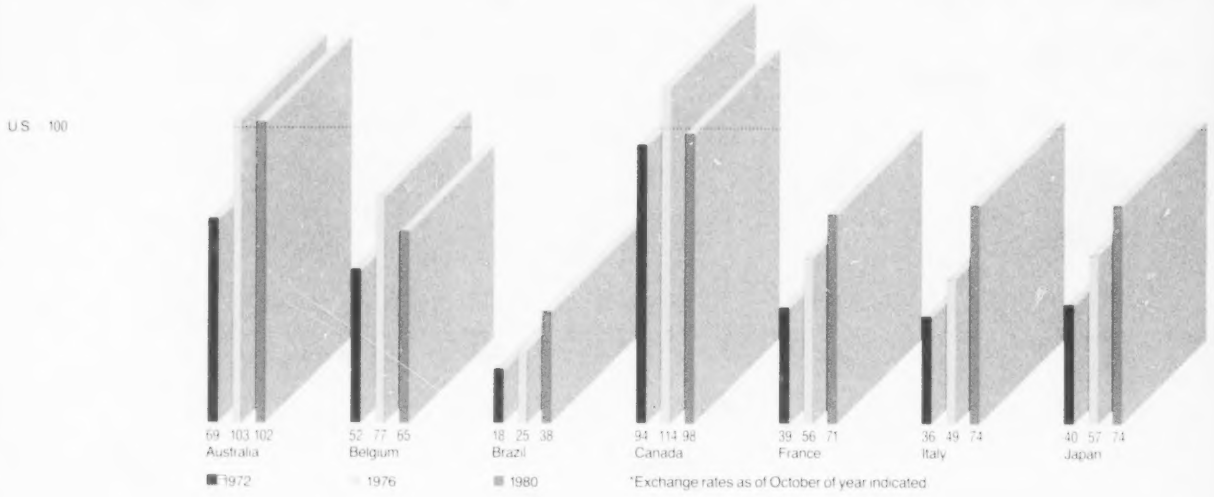


TABLE 3: Maximum Marginal National Tax Rate Applicable to Resident Citizen—1982

Country	Maximum Marginal Rate	Income Level at Which Reached in U.S. $*	Marginal Rate Applicable at 100,000 U.S. $*
Australia	60.0%	$ 40,400	60.0%
Belgium	72	104,000	69
Brazil	55	65,600	55
Canada	50	45,000	50
France	60	21,900	60
Hong Kong	15	25,900	15
Italy	72	458,700	50
Japan	75	396,300	55
Mexico	55	96,800	55
Netherlands	72	76,100	72
Saudi Arabia	0	0	0
Singapore	55	297,900	40
Spain	65	109,200	59
Sweden	58	37,400	58
Switzerland	11.5	218,700	11.5
United Kingdom	60	53,000	60
United States	50	85,600	50
Venezuela	45	1,863,200	21
West Germany	56	115,800	56

*January 1, 1982 exchange rates.

Source: TPF&C

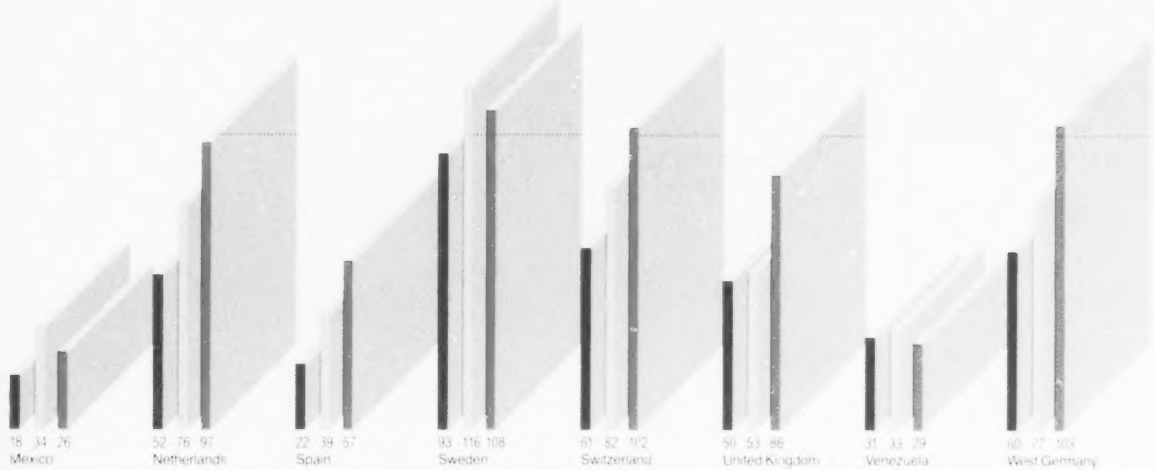


TABLE 4

Base Salary Indices of Hourly Workers in Manufacturing (as a % of U.S. salary*)

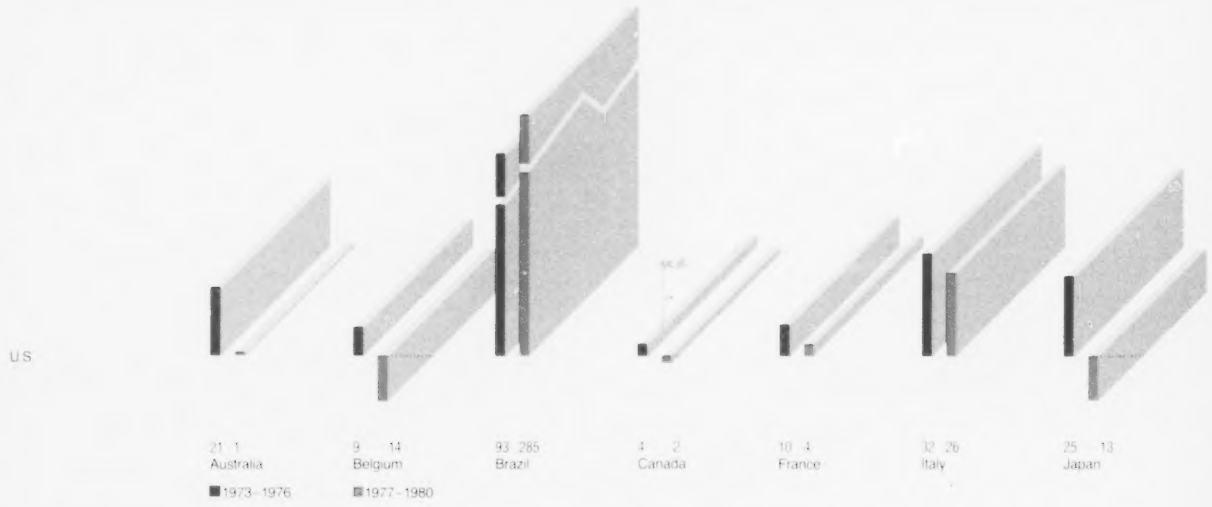
Source: International Labor Organization and published exchange rates

In France, tax rate calculations are complex, involving a family point system and various contingent considerations. The result is that a couple with two children might not reach the maximum marginal tax rate until their taxable income is three times that indicated on the table. In Brazil, marginal tax rates usually work out to be 30% to 35% instead of 55% because of the way in which the tax is calculated after the indexation of both the tax tables and the withholding tax is taken into account.

In Belgium, a communal tax of 6% is levied on the total state tax, and a tax-deductible contribution of 3% of total earnings is applied toward social security, increasing the effective maximum rate. Local taxes of up to 28% increase the effective marginal rate in Sweden to as much as 86%. And in Switzerland, local taxes can more than double the 11.5% federal tax.

Local income taxes of about 11% (which are deductible from the federal tax) in California and New York, both highly populated and highly industrialized states, increase the U.S. maximum effective tax rate to approximately 55%. Furthermore, different tax rates apply depending on marital status.

Since our last study, several countries have significantly changed their tax rates or structures. A new Canadian law has reduced the combined federal/provincial tax ceiling to 50% from 60% for an Ontario resident. This reduction, however, is largely offset by new or increased taxes on imputed income (e.g., from benefit premiums) normally provided to employees. The U.K. has reduced the maximum rate dramatically, to 60% from 83%. In the U.S., a new law lowers taxes in general and provides that the income level on which the maximum rate is levied will rise over time. And in Belgium, the government has introduced a new surtax on income of more than $78,500.



Wages in Manufacturing Industries: *Tables 4, 5* and 6 illustrate the wage and inflation patterns in industrialized countries over the past few years. As shown in Table 4, Australian, Swedish, Swiss, U.S. and West German hourly workers are among the highest paid in the world. Wage earners in Brazil, Mexico and Venezuela earn considerably less.

Table 5 offers a global picture of relative inflation rates using the U.S. rate as a base. Between 1973 and 1976, the U.S. inflation rate was 36%; in the 1977-1980 period, it was 47%. In contrast, between 1977 and 1980, inflation in Brazil was 285% higher than that in the U.S.; in Mexico, 56% higher; in Spain, 38% higher; in Italy, 26% higher, and in the U.K., 16% higher.

On the other hand, the inflation rates were 13% lower in Japan; 14% lower in Belgium; 15% lower in the Netherlands; 19% lower in West Germany, and 24% lower in Switzerland. The combination of internal inflation rates and wage increases determines whether real gains have been made.

As illustrated in Table 6, inflation has severely eroded the apparent gains in many locations. Hourly wages in Switzerland, for example, rose to 12.11 Swiss francs in 1980 from 8.72 Swiss francs in 1972. But inflation wiped out any real gains.

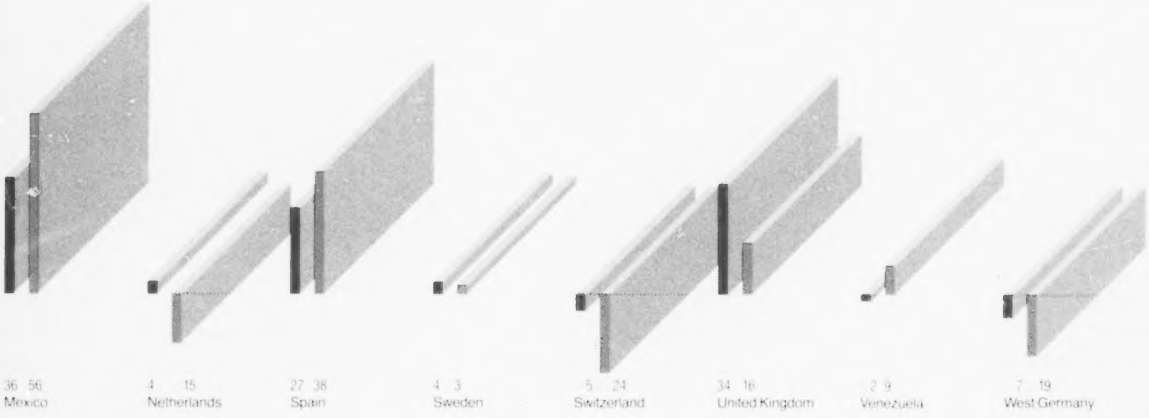


TABLE 5

Inflation Rates (percentage excess or shortfall in relation to the U.S. rate)

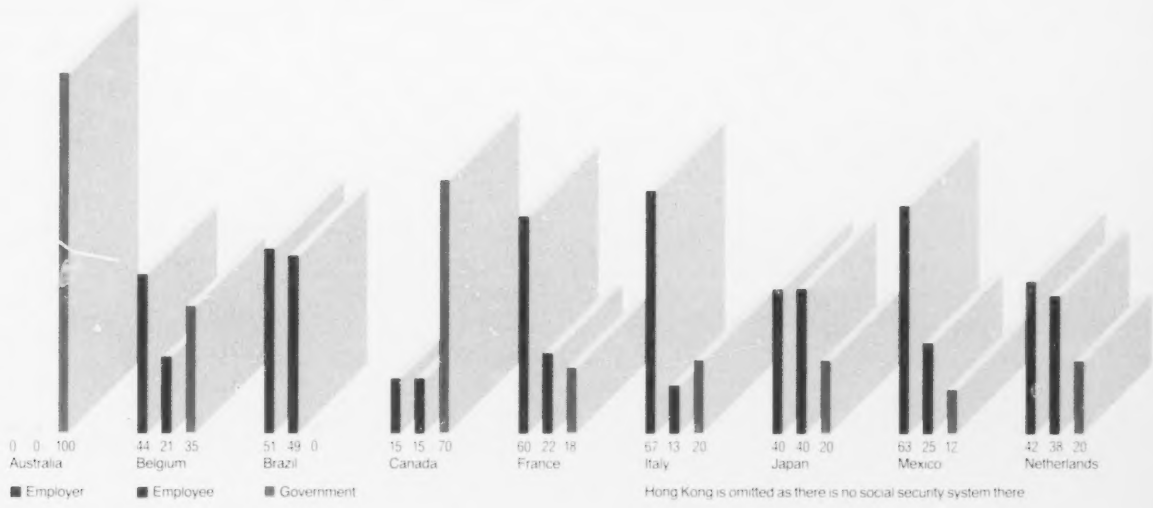
Source: International Monetary Fund

TABLE 6: Average Hourly Earnings in Manufacturing* (in local currency†)

Country	1972	1976	1980
Australia	2.20	4.33	6.37
Belgium	87.58	159.68	217.88
Brazil	4.08	13.67	142.00
Canada	3.54	5.76	8.19
France	7.47	13.87	22.72
Italy	788.00	2133.00	4643.00
Japan	450.00	882.00	1175.00
Mexico	8.68	22.16	43.76
Netherlands	6.38	10.77	13.68
Spain	52.20	135.97	291.90
Sweden	16.76	27.01	32.67
Switzerland	8.72	10.54	12.11
United Kingdom	.82	1.56	2.66
United States	3.82	5.22	7.27
Venezuela	5.26	7.28	8.99
West Germany	7.24	10.35	13.18

*Average earnings include base wages for time worked, payment for holidays, vacations, bonuses and gratuities.
†As of October of year indicated.

Source: International Labor Organization



Benefit Practices

Effective management of employee benefits today lies not in spending more but in spending more wisely. In every industrialized country, benefits are an integral part of the total remuneration package. But both statutory and private benefit plans are facing severe problems, not only because of volatile economies but also because of changing worker needs, rising employee expectations and shifting demographics.

Social security systems in all the countries in the study—except in Saudi Arabia and Singapore—are primarily financed from current income rather than from investment funds. In the coming decades, they will be severely strained by the need to provide ever-higher levels of benefits to ever-larger numbers of people.

The United States presents a vivid example of a country in which the ratio of retirees to active workers is changing so dramatically that the wage-earner tax base at current tax rates will soon be unable to supply sufficient funds to continue the present level of social security benefits. Unless new funding sources are legislated, the tax liability of both employers and employees will have to become much greater to sustain current benefits. Indeed, this is already happening.

With the exception of Hong Kong, where no social security system exists, all the countries in this study provide retirement benefits. As shown in *Table 7*, social security systems in Brazil, Saudi Arabia, Singapore, Spain, Sweden, Switzerland and the U.S. are not financed by the government, and in Venezuela and Mexico, government contributions amount to only 11% and 12%, respectively, of costs.

At the other end of the spectrum, the government pays the entire cost of Australia's partially means-tested social security system and 70% of the cost of the Canadian system is government-financed. In Belgium, France, Italy, Japan, the Netherlands, the U.K. and West Germany, government contributions range from 18% to 43%. In Sweden, the entire cost is borne by employers.

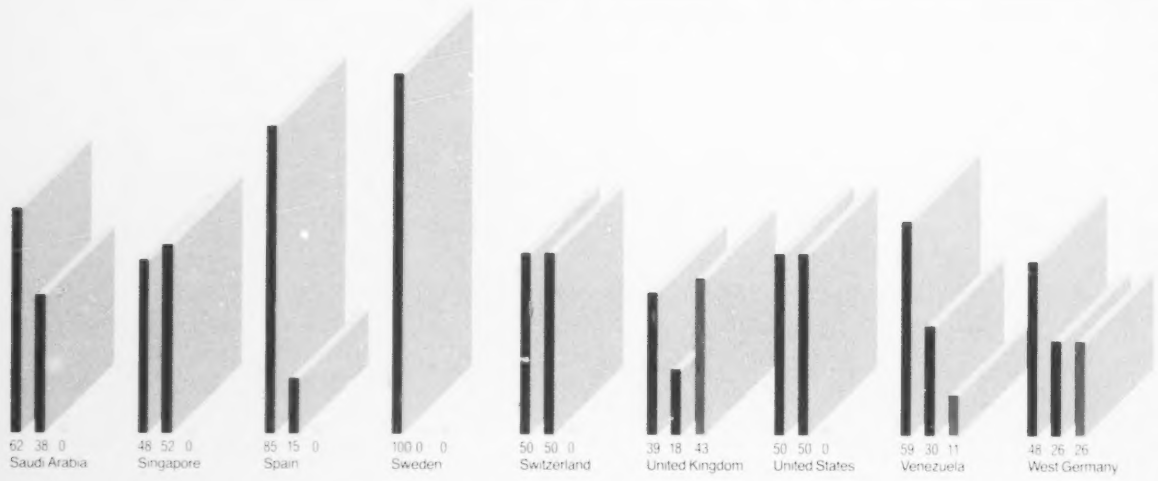


TABLE 7

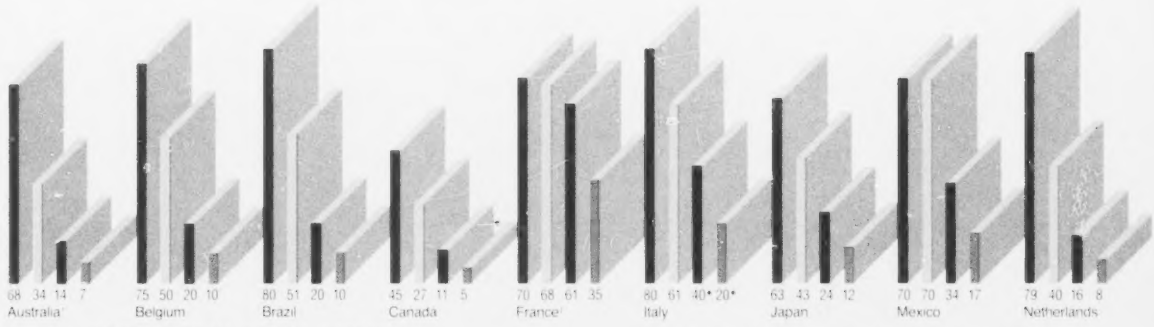
Sources of Social Security Pension Finances (in %)

Source: European Economic Community and TPF&C

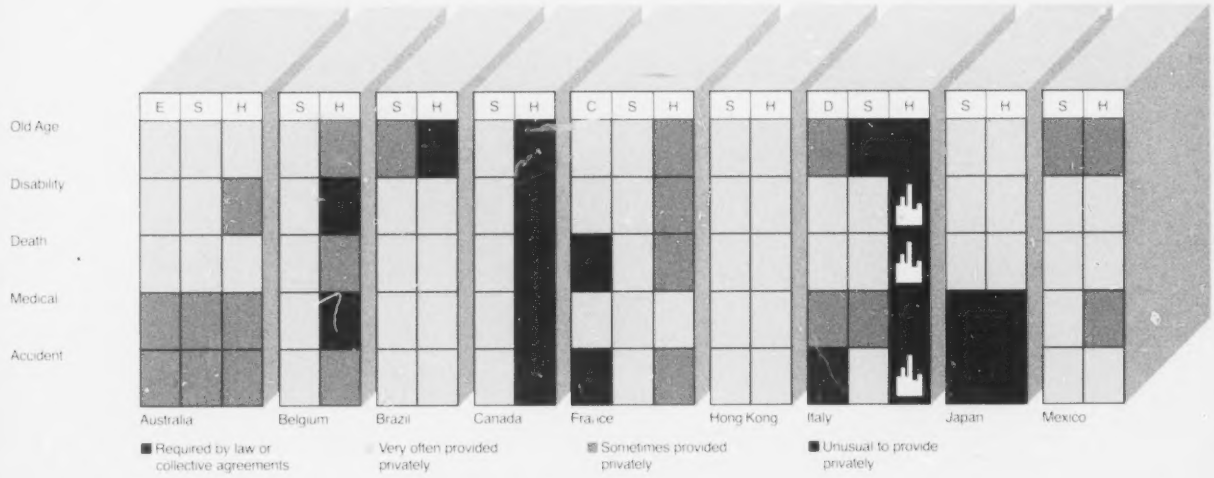
Social Security Pension Benefits: The amount of social security pension benefits *(Table 8)* relates to pay levels and years of employment in most of the industrialized world. Generally, lower-paid workers receive a larger percentage of final salary than do higher-paid workers. For example, an employee in Spain will receive a pension benefit of 100% of final salary at the $10,000 level, but only 19% of pay at the $100,000 level. Saudi Arabia is the exception to the rule. There, the current pension benefit equals only 21% of final income whether that income is $10,000 or $100,000. The system is comparatively new and benefits will be significantly higher for all employees when it matures.

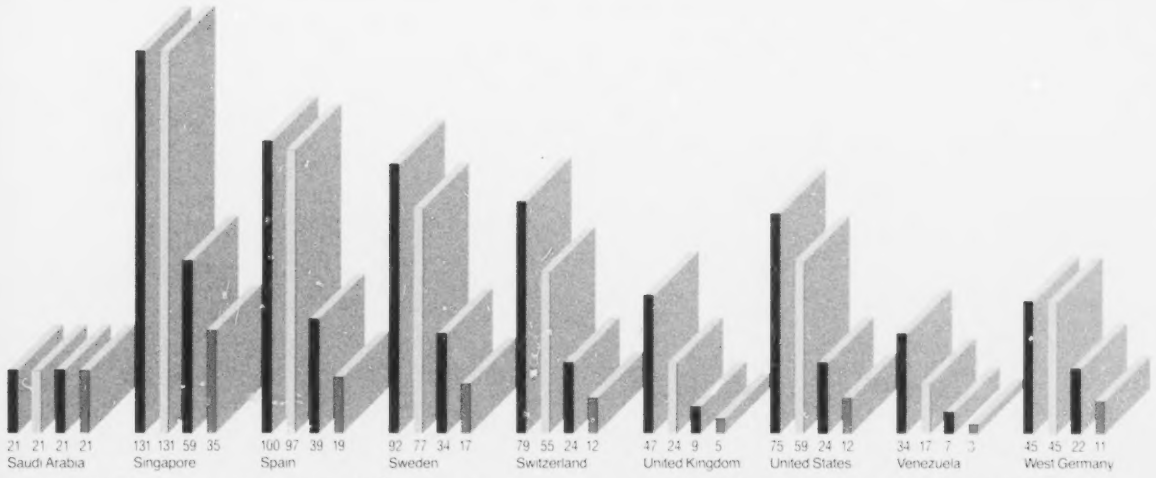
Singapore's social security retirement system, instituted in 1965, could, when it matures, provide a lump-sum payment equivalent in value to a pension of 131% of final salary to workers earning up to $20,000 annually, and 35% to those earning $100,000. However, few employees have participated in the system long enough to receive these benefits. Pension benefits in Venezuela are very low compared with those in most countries. The annual benefit provided to an employee with a final salary of $10,000 is only 34% of that amount. At the $20,000 level, an employee receives a pension benefit of 17% of final salary. However, mandatory employer-provided indemnities and other considerations substantially mitigate this relatively low pension scale.

Both Canada and West Germany provide a pension benefit equal to 45% of final salary for employees at the $10,000 level, and the U.K. grants a social security pension equal to 47% of a final salary of $10,000. In all other countries, the pension equals more than 60% of final pay for workers at the $10,000 level.



Hong Kong is omitted as there is no social security system there





* For a married employee retiring on January 1, 1982 with full social security coverage.
† Subject to income test. Maximum amounts are shown.

‡ Percentages include compulsory benefits from complementary schemes.
* Assumes coverage under system for industrial managers.

TABLE 8

Source: TPF&C

Social Security Pension Benefits* (as % of final salary)

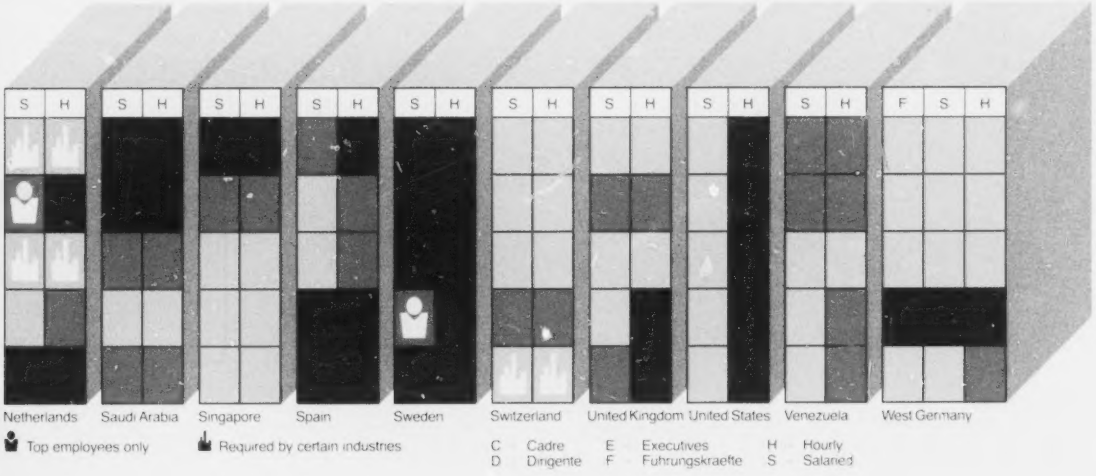
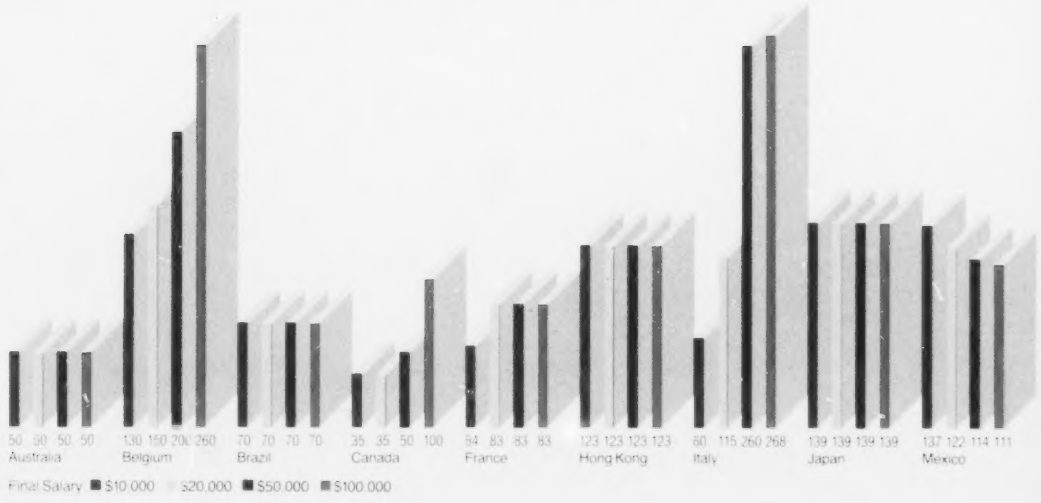


TABLE 9

Source: TPF&C

Private Benefit Practices



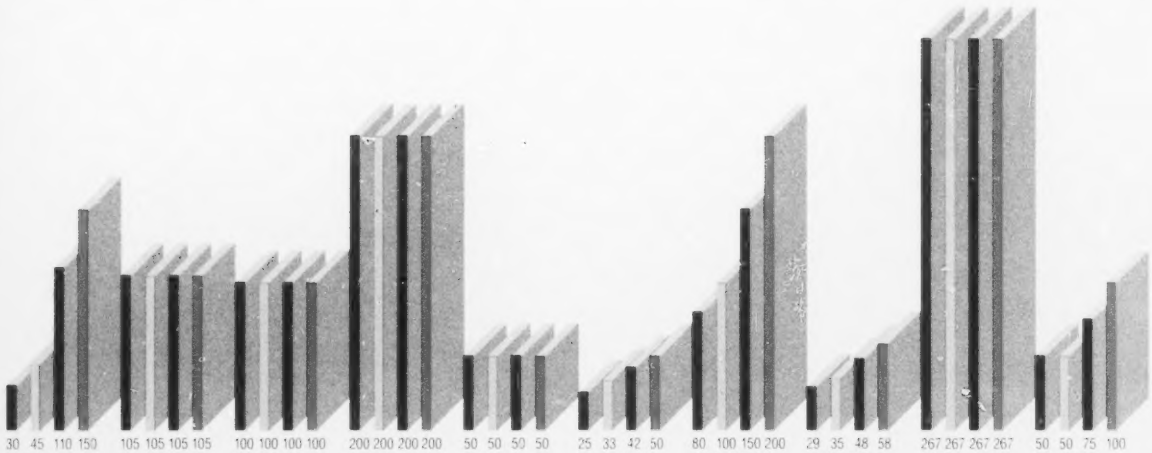
Private Benefit Practices: In a majority of the countries studied, it is customary for employers to provide old age benefits and, to a somewhat lesser degree, health insurance benefits *(Table 9)*, but practices differ considerably. Old age benefits in Mexico really are a disguised form of termination indemnities; in the U.S. and Canada, they are one element in a full range of employer-provided benefits.

Italian hourly workers usually do not participate in the benefits provided for salaried and supervisory workers, except in certain industries where accident, disability and death benefits have been negotiated in union contracts. In Canada and the U.S., on the other hand, a range of benefits typically is required by collective agreements for hourly workers but not for nonunionized salaried workers, although the benefits provided to salaried employees very often mirror those of hourly workers.

Sweden requires employers to furnish supplementary retirement, accident, disability and death benefits. Employers in Japan and Spain, however, typically do not provide such benefits as group health and accident insurance.

The delivery of health services varies greatly from country to country. In the U.S., medical care is provided both by private organizations and the government. In the U.K., private companies provide health benefits only on a supplemental basis as the government supplies comprehensive medical services. In other countries where medical benefits rarely are provided privately—e.g., Italy, Japan, Spain and Sweden—the state also provides comprehensive medical benefits. In Australia, medical coverage largely remains the responsibility of the individual employee, usually through an insurance (health fund) arrangement.

Companies in West Germany provide a wide array of benefits to all classes of employees. However, organizations there have begun to exercise great caution in



*Payments include both severance pay and pay in lieu of notice. All employees are married, age 40, with two children and 15 years of service.

†Additional amounts are frequently negotiated in retrenchment situations.

TABLE 10

Typical Payments for Involuntary Termination* (as % of annual cash income)

Source: TPF&C

introducing new benefits or making improvements to present plans—employers are concerned about the increasing cost of providing private retirement, death and disability benefits. For example, legislation over the last several years introduced mandatory vesting, and labor court rulings are forcing post-retirement pension indexation. Recently, tax law changes have reduced the amounts companies may claim as tax deductions for retirement plans that are financed through book reserves—the most common financing method in West Germany.

Termination Practices: Involuntary terminations—i.e., dismissals that are not the result of employee misconduct—can be costly. For example, as *Table 10* shows, employees in Belgium and Italy with at least 15 years of service and annual earnings of $20,000 can receive—by law—150% and 115%, respectively, of their annual earnings as severance pay or pay in lieu of notice. A Venezuelan with similar service who is involuntarily terminated receives 267% of final annual salary. Other countries that mandate termination payments are Brazil, France, Mexico, the Netherlands, Saudi Arabia, Spain, Sweden, the U.K. and West Germany. And in many countries where termination payments are not legislated, custom makes them an accepted and expected practice.

In Belgium, involuntary termination payments at upper salary levels can reach 260% of final pay, proportionately greater than those received at lower salary levels. In Australia, payments are individually negotiated for those earning high salaries and can range up to 100% or more of pay in individual cases. Some U.S. senior executives earning $100,000 or more frequently have employment contracts that specify negotiated termination indemnities at various service levels. These can amount to several times annual salary and may include stock and stock options as

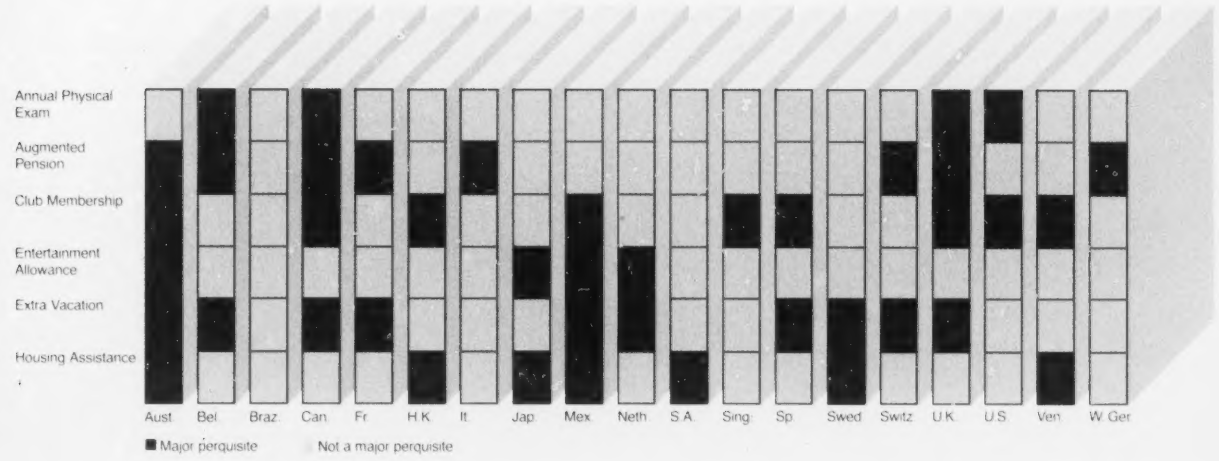


TABLE 11

Most Commonly Expected Major Executive Perquisites

Source: TPF&C

well as the continuation of various perquisites for several years. Older senior executives frequently receive supplemental early retirement pensions.

Individual dismissals can be costly; collective dismissals can lead to financial disaster, particularly for a multinational corporation, which can expect little sympathy from a foreign government when a plant closing is proposed. One of the first considerations for an MNC selecting a foreign site is the real—albeit sometimes hidden—cost of shutting down an operation.

Involuntary termination payments are but a portion of the legal liabilities the company may face. These can include full vesting of all pension rights, salary continuation, benefit plan continuation and harsh penalties. Corporate planners are well-advised to develop a contingency exit plan concurrently with an entrance plan before making a final decision about any foreign operation.

Major Executive Perquisites: Aside from company cars, which are supplied almost universally, executive perquisites differ from one country to another. Annual physical examinations are included in perquisite packages in some European countries and in the U.S. Augmented pensions and extra vacation are among the major amenities in most European countries and in Canada, but they are virtually unknown in the Far East. In the U.S., a trend is developing toward augmenting executive pensions.

Australia and Mexico are the only countries where key managers usually receive both club memberships and an entertainment allowance. Elsewhere, one or the other is customary. While executives in most industrialized countries enjoy several perquisites, those in Italy and West Germany commonly do not receive more than augmented pensions. *Table 11* shows the distribution of executive perquisites among the 19 countries studied.

Expatriate and TCN Remuneration

Managing the careers of employees who move from country to country throughout their working lives is somewhat like playing chess. Unless the moves are thought out in advance—the near-term advantages weighed against the long-term risks and opportunities—men may be forfeited and the game lost.

To illustrate the complexities of international employee career management, suppose that a Brazilian subsidiary of a Belgian multinational wins a contract to build a hydroelectric plant. The parent MNC considers transferring a Belgian engineer currently earning $37,200 in Brussels, a Spanish engineer whose salary in Madrid is $18,800 and an American engineer who is receiving $24,000 in Denver. All three are career employees with equivalent experience.

What salary and allowances should each receive? Should the company compensate them equally? How would their salaries compare with that of a Brazilian national? Given their nationalities and cultural expectations, the Belgian would be likely to think in terms of career advancement; the American might expect to be paid a bonus for contract completion, and the Spaniard would probably prefer as much current cash as possible. What weight should be given to these expectations?

In this situation, the parent company may well decide to negotiate a separate remuneration package with each engineer. The firm's home country practices will serve as basic guidelines, and adjustments will be made for the expectations of the engineers, tax considerations and prevailing remuneration and inflation rates in Brazil. Some allowance for the equal-pay-for-equal-work element will also be factored into the arrangements. Another important consideration will be the engineer's citizenship. The Belgian engineer becomes an expatriate when he goes to

Brazil. The United States and Spanish citizens will be "third country nationals," i.e., citizens of one country who work in a second country as employees of a corporation with headquarters in still a third country.

Although the term "third country national" (TCN) is used primarily by U.S. companies, it highlights the fact that these employees present special problems relating to retirement and other benefits as well as remuneration planning. Great care needs to be given to the communication of company policies on all these matters. (Of course, different issues would arise if the business was not project-oriented as is the one in the example.)

U.S. companies usually devise complex formal programs to provide tax protection, incentives and remuneration parity (within the company and with competitors) for their expatriate and TCN employees. This approach derives partly from the taxation of foreign-earned income of U.S. citizens. Non-U.S. MNCs prefer to negotiate individual remuneration packages that contain all-inclusive allowances to cover a variety of expenses.

The tax structures of various countries and the cultural expectations of employees tend to reinforce these differences in practice. The U.S., for example, is often called a nation of entrepreneurs: more loyal to their careers than to their employers, many U.S. executives enjoy the challenge and even the status of moving from one organization to another. In many other countries, the relationship between employer and employee is far more paternalistic, with a greater degree of trust and expectation on both sides. Executives of non-U.S. corporations are given to understand that the company will take care of their standard of living during their retirement as well as their working years. Written agreements rarely are necessary.

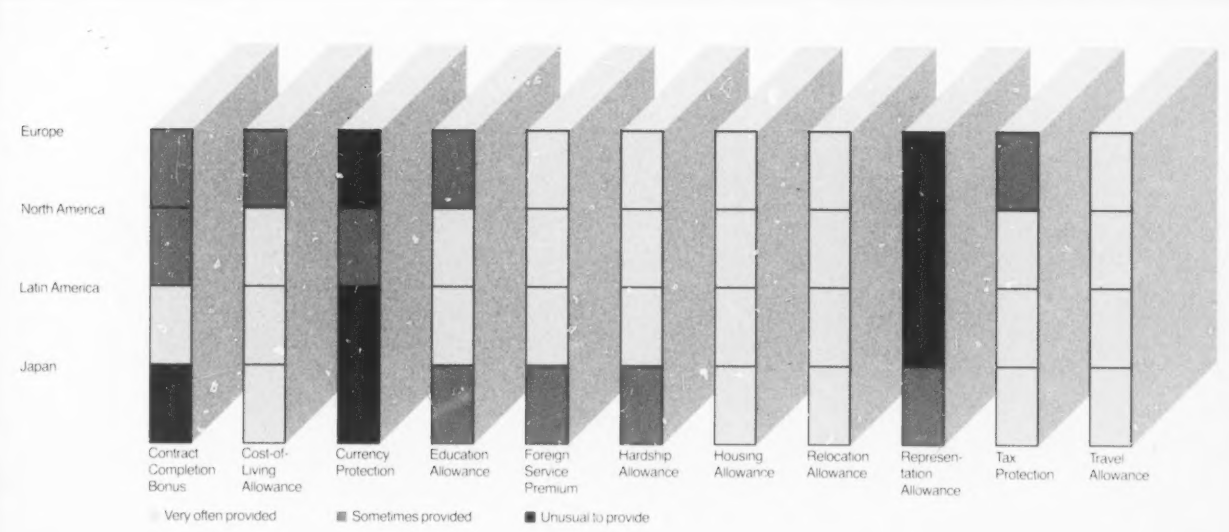


TABLE 12

Major Allowances Provided to Expatriates (by location of corporate headquarters)

Source: TPF&C

Major Allowances for Foreign Service: As shown in *Table 12*, all multinationals provide allowances for expatriate employees. Those most commonly granted are relocation and travel allowances and housing assistance. The allowances shown for Europe are more typically those of the U.K. The greatest variations are found in France. Hong Kong and Singapore have not been included in this table because they presently have no large cadre of expatriate employees.

North and South American firms and Japanese companies very often provide tax protection for their expatriates; European companies sometimes do. The U.S. is the only major country that taxes its citizens regardless of residence or employer. In the U.S., however, the Economic Recovery Tax Act of 1981 has, to a large extent, eased the tax burden of most U.S. expatriates. The law excludes the first $75,000 of foreign-earned income from U.S. tax consideration for the year 1982. An additional $5,000 exclusion will apply each year through 1986.

Most U.S. multinational companies deal with their employees' tax liabilities through tax equalization programs under which the company continues to withhold an amount equivalent to U.S. income taxes from expatriates' pay, then pays all taxes due anywhere in the world. Because of the new law, companies that continue this policy will benefit from tax savings rather than the employee. As a result, they will probably become more competitive in the marketplace.

Pension Considerations: Although U.S. statutory benefit laws, as well as tax laws, follow U.S. citizens throughout the world, the laws of most other countries are much more restrictive in regard to the social security benefits of their expatriate citizens. European expatriates and TCNs who remain within the 10-nation

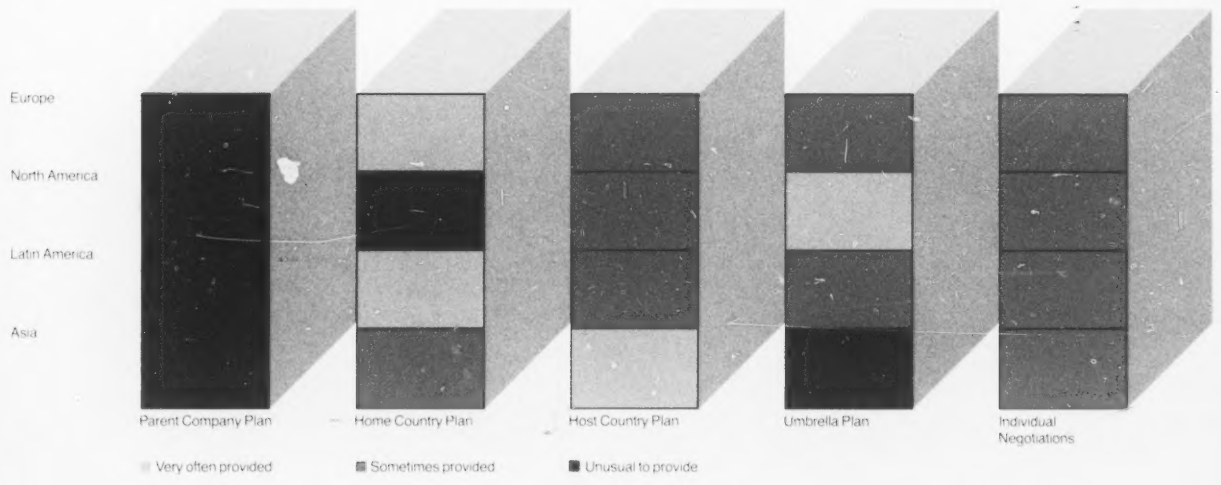


TABLE 13

Sources of TCN Retirement Income (by location of corporate headquarters)

Source: TPF&C

European Economic Community, however, enjoy portable social security benefits for their entire period of service.

Some international employees may work for an MNC for 30 years or more and never spend more than five consecutive years in one country. They may not become vested in the social security plans of any country and, in the case of TCNs, have little or no home country benefits available to them. If a TCN has worked in a country where currency transfer is not permitted, payment of any accrued benefits must be made and used in that country or forfeited. As a consequence, corporations frequently make private pension arrangements that provide at least a floor of retirement income. Still, TCNs can end their careers with retirement income that bears little relationship to career income.

For this reason, retirement planning becomes extremely important to both employer and employee. *Table 13* illustrates how unusual it is for parent company plans to cover TCNs. Many multinational companies believe the most equitable retirement arrangement is an umbrella plan. This includes a formal contract that stipulates certain pension guarantees. A formula might be 2% of the employee's final three years' average earnings times years of service, offset by social security, other statutory benefits and any other company retirement benefits to which the employee is entitled.

The currency in which the benefit is to be received and problems associated with converting offsetting benefits have to be considered. TCN plans are frequently difficult to pre-fund and costly to devise and administer. Consequently, although they may affect only a small proportion of a company's work force, TCN retirement plans can be among the most pressing problems of multinational benefit planning.

Total Remuneration Issues

The business environment of the 1980s is so complex; the economic, social and political conditions so volatile, and the competition for monetary, natural and human resources so keen that corporations cannot afford to take for granted their single most important asset: people. To attract and retain highly qualified employees, a company must offer an externally competitive, internally equitable total remuneration package as part of a well-conceived human resource program.

This is as true for companies operating wholly within their own national boundaries as it is for those operating on a worldwide scale. Among the remuneration issues organizations will have to resolve in the coming years are:

□ Is it strategically desirable to maintain relative competitiveness at all levels in the organization, across all functions and in all areas in which the company operates? To what extent should the nature of the operation—or the work location—influence the components of the pay package? Should multinationals endeavor to establish a unified pay system to recompense managers who may work side by side and have the same levels of responsibility and training? How do you deal with widely disparate expectations caused by diverse cultural backgrounds?

□ What kind of executive incentives are most effective? What legal or cultural restraints must be considered? In what countries can company stock be used? To what extent should such non-market-sensitive instruments as performance shares be used in addition to or in lieu of stock?

□ What is the proper role of benefits in the total remuneration package? How can organizations prepare for a potential retrenchment by many governments around the world in providing pension and welfare benefits?

□ How can multinationals determine whether benefit costs and liabilities are being recognized realistically in the different countries in which they operate? Is there a

proper charge to income at the local level in the financing of retirement benefits? If not, might it affect investment decisions? Would it have an impact on executive bonuses? What remedial action can be taken?

□ Recognizing the importance of periodic worldwide assessment of benefit costs and liabilities, to what extent should corporate headquarters take an active hand in establishing guidelines and coordinating benefit plans throughout the world? How can unfunded liabilities be identified when evaluating a proposed acquisition or divestiture? How negotiable are these liabilities?

Of course, remuneration planning is only part of the overall human resource strategy. Career planning is equally important to both employer and employee. If either thinks only in terms of money, the seasoning of key people, their training for future advancement and their ability to accept greater challenges may be lost. In today's market, a manager—and potential senior executive—will readily accept a new assignment that is accompanied by a pay raise and bonus but refuse one that has far greater career development potential but no salary increase. Yet if companies always link money to executive moves, eventually an executive will become so highly paid that he or she will no longer be able to "come home."

This practice must change. Human resource professionals must be able to transfer people from the standpoint of career development as well as remuneration, and they must inculcate this concept in employees. If employees are expected to accept moves that may not, in the short term, be financially rewarding, they must be allowed to participate in the planning process so they will better understand the advantage to them of career training. If this is not done, corporations may find that their best managers—failing to see the broad picture because it has not been sufficiently communicated and emphasized—are being lured away by competitors.

About TPF&C

We have been consultants to management since 1917. TPF&C currently employs more than 1,600 persons and has a consulting and specialized support staff of over 1,200. We serve more than 4,500 clients in the private and public sectors, about 500 of whom are multinational organizations. Our clients have operations in over 90 countries. We have 33 consulting offices worldwide—19 in the U.S., four in Canada, four in Europe, three in Australia, two in Latin America and one in the Far East—to better serve our growing list of clients. Our consulting skills are in these fields:

- human resource planning and development
- executive compensation
- salary administration
- marketing and sales compensation
- actuarial and employee benefits
- communications
- corporate planning and development
- organization planning
- operations management
- risk management
- insurance company actuarial and management services.

International Remuneration Surveys: Accurate, up-to-date information about the remuneration practices of competitors is essential to companies throughout the world in order to establish new pay programs and to evaluate and revise existing strategies. TPF&C is continuing to develop a worldwide network of annual remuneration

surveys that use a consistent methodology and report presentation specifically geared to the survey country. Our Compensation Data Bank (CDB) provides a series of computerized surveys that analyze pay and furnish data on estimated going rates, job scope and responsibilities, organizational structure, company financial statistics and incumbent characteristics.

The table below summarizes the types of surveys we conduct in each country.

International Compensation Data Bank Surveys

Country	Industrial Survey	Banking Survey	Country	Industrial Survey	Banking Survey
Belgium	□	□	Netherlands	□	
Brazil	□		Singapore		□□
Canada	□□		Switzerland	□	
France	□		United Kingdom	□	
Hong Kong		□□	United States	□	□
Italy	□		Venezuela	□□	□□
Japan		□□	West Germany	□	□
Korea		□□			

□ management positions only
□□ management and non-management positions

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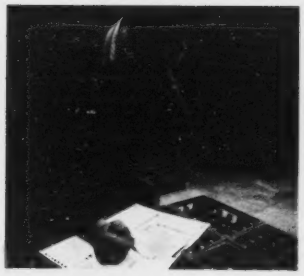

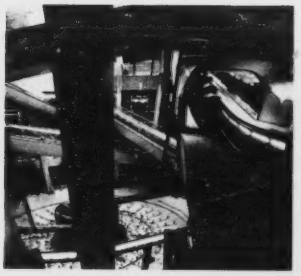

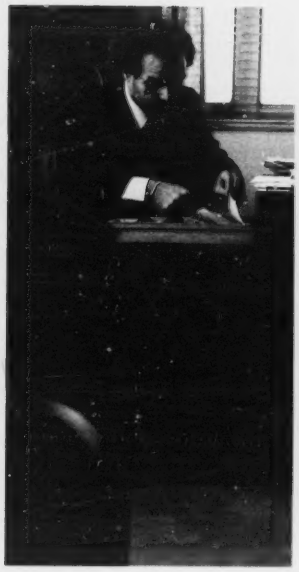

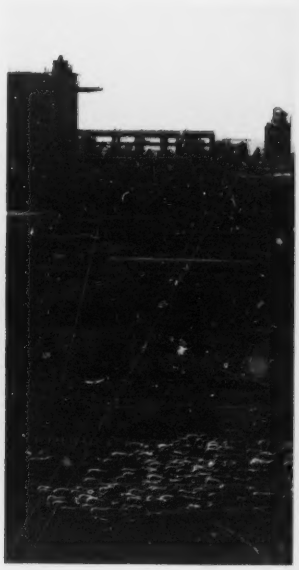

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